




U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

March 30, 1998

MEMORANDUM FOR: DAA/M, Richard C. Nygard  
BHR/FFP, Tom Oliver

FROM: IG/A/PA, David M. Conner 

SUBJECT: Audit of **USAID/Washington's** Review and Certification of Unliquidated Obligations for Project and Non-Project Assistance, Report No. 9-000-98-004-F

This memorandum is our report on the subject audit. In preparing this report, we considered management's written comments on our draft report and included them as Appendix II.

This report contains four recommendations for action by your offices. Management's comments to the draft report include plans for correcting the weaknesses noted during the audit and clearly demonstrate a determination to properly manage **USAID/Washington's** unliquidated obligations.

We concur with management's plans for Recommendations Nos. 1.1, 1.2, 2, and 4. Management Bureau's Office of Management Planning and Innovation will be responsible for deciding when final management action related to these recommendations has occurred.

We are withholding our concurrence with management's decision on Recommendation No. 3.1. As recommended, **M/OP** reviewed the balances described in Appendix IV. In many instances, it could not close-out the listed obligation because it needed information from another **USAID** office. However, there was no indication when this information was expected. As noted during the audit, untimely responses to inter-bureau requests contribute to the lengthy close-out process. Therefore, we believe that these other offices should provide **M/OP** with the needed information or indicate when it will be provided. If management agrees to this step, we will consider ~~that~~ a management decision has been made. Management had not reached a final decision for Recommendation No. 3.2.

I again wish to express my appreciation for the cooperation extended to Office of Inspector General (OIG) staff during this audit.

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## Background

This audit is part of the **OIG's** worldwide review of the Agency's obligations for project and non-project assistance. The **OIG's** Division of Performance Audits (**IG/A/PA**) is leading this worldwide effort, with the assistance of auditors from all **OIG** offices of Regional Inspector General. The worldwide audit is limited to obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. It does not cover obligations recorded in fiscal year 1996 into the Agency's new accounting system, obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by **USAID** for the Trade and Development Agency. **IG/A/PA** randomly selected **USAID** sites for detailed audit work and also determined the number of unliquidated obligations to be randomly selected and reviewed at each site. A total of 19 sites (**USAID/Washington** and 18 missions) were selected for review.

Agency records indicate that, on September 30, 1996, **USAID/Washington** had 4,189 unliquidated obligations for project and non-project assistance with balances **totalling** approximately \$4.4 billion. The data projected throughout this report are the estimated percentages of how much of this balance would have been found to be invalid or excessive if the entire universe of obligations had been reviewed. The audit was not designed to determine whether **all** valid obligations were recorded, the unliquidated balances reported by **USAID** had been computed correctly (e.g., disbursements were correct), or appropriation account balances were accurate.

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## Audit Objective

This audit was designed to answer the following question:

**Did USAID/Washington review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and Agency policies and procedures?**

Federal agencies are required' to review their obligations at least once each year so that they can, among other things, meet a legislative requirement to submit a report supported

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<sup>1</sup>U.S. Department of Treasury Circular No. 965 requires that each agency verify its own accounts at least once each year. Public Law 101-510, Sec. 1405(a) requires the head of each agency "to establish internal controls to assure an adequate review of obligated balances."

by a certification as to the validity of their recorded obligations.’ In addition, USAID guidelines require Agency controllers to initiate and coordinate reviews of all unliquidated obligations at least once each year to determine whether the obligations’ balances should be retained or deobligated. Our audit was limited to reviews undertaken by USAID/Washington in order to certify that only valid obligations had been recorded and to identify obligations with excess or unneeded balances. See Appendix I for a discussion of the scope and methodology for this audit.

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## Audit Findings

### **Did USAID/Washington review and certify its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and Agency policies and procedures?**

In general, USAID/Washington reviewed and certified its unliquidated obligations for project and non-project assistance in accordance with U.S. laws and regulations and Agency policies and procedures. We found that, in fiscal year 1996, at the instigation of USAID/Washington’s accounting offices, activity managers in USAID’s geographic and program bureaus conducted a variety of reviews to **ensure** that recorded **obligations** were valid and that unneeded obligation balances were **identified** and deobligated. Many of these reviews **were** referred to within **USAID** as “Section 1311 reviews.” On the basis of information developed during these reviews, Washington’s accounting offices provided certifications to the Agency Controller that, with the exception of obligations recorded under a newly activated accounting system, all recorded obligations were supported by documentation required in 31 U.S.C. 1501(a). Our audit confirmed the accuracy of these statements. We found only a few recorded obligations which appeared to be invalid. Most of the questioned obligations were executed by the Bureau for Humanitarian Response’s Food for Peace office (**BHR/FFP**) and were associated with emergency activities which may have been rushed through the obligation process.

Our audit showed that **USAID/Washington** was much less successful in identifying excess or unneeded obligation balances. We estimate that about \$358 million, or approximately 8 percent, of **USAID/Washington’s** \$4.4 billion pipeline exceeded funding guidelines or was no longer needed as of September 30, 1996.

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<sup>2</sup>Concerned that **Federal** agencies **were** record@ obligations in situations what no real obligations existed and that information on which to determine an agency’s **future** requirements was not reliable, Congress with the U.S. General Accounting Office (GAO) and the Office of **Management and Budget** established **criteria** for **determining** the validity of obligations in Section 1311 of the Supplemental **Appropriation** Act of 1955, now Title 31 U.S. Code, Section 1501(a). 31 U.S.C. 1108(c) requires that agencies **include**, with their **appropriation** requests, a report that the statement of obligations submitted with the request contains obligations consistent with the documentary requirements of 31 U.S.C. 1501(a). The report must be **supported** with a **certification** to this consistency.

Excess or unneeded balances were retained and not deobligated by the Agency for a variety of reasons, including inadequate guidance for the enforcement of forward funding guidelines, deficient reviews, insufficient follow-up of review results, and normal delays in routine financial management operations.

Because of the activation of new accounting and management systems in USAID/Washington in fiscal year 1997, current practices are significantly different from those in place during the period covered by our audit. As a result, some recommendations to correct problems noted during the audit have been adapted to reflect weaknesses which were either not corrected by new systems or appear to have been created by the new systems.

### **Recording of Eight Obligations** **Appears Questionable**

During our audit, we identified eight obligations which appeared to have been recorded improperly. The unliquidated balance of these obligations **totalled \$15,746,057** at September 30, 1996. We questioned the validity of six obligations **totalling \$13,808,657**. (See Appendix III.) In addition, we noted that two obligations, with balances **totalling \$1,937,400**, had been recorded prematurely.

Standards for proper recording of obligations are found in 31 U.S.C. 15014502. Section 1501 (a)<sup>3</sup> established documentary requirements for obligations and was enacted to ensure that federal agencies record only those transactions which are actual obligations. If a given transaction does not meet any one or more of these standards, it is not a valid obligation and may not be recorded as one. Section 1502(a) provides further that appropriated funds are "...**available** only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period...". This section, often referred to as the bona fide needs statute, has been interpreted by the GAO to mean that, before an obligation can occur, there must be a bona fide need, in the year that obligation is executed, for whatever an agency is buying for its money.

During our audit, we identified eight obligations which appeared to have been recorded either (1) before the documentary standards were actually met or (2) without ever meeting the standards. These obligations are discussed below.

#### **Bona Fide Need**

In September 1995, **USAID** awarded a task order against a contract, in the amount of \$99,915, for two studies. The studies were to be conducted in two African countries which were to be identified after an initial review and then completed by March 1, 1997.

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<sup>3</sup>Originally enacted as section 1311 of the **Supplemental Appropriation** Act of 1955 (68 Stat. 830).

As of July 1997, the Agency had still not identified where the studies were to be performed. Because of this delay and lack of specificity, we question whether, at September 1995, there was a bona fide need for these studies in the year that the obligation was executed.

### Missing Documentation

**BHR/FFP** signed five agreements, which had unliquidated balances at September 30, 1996, totalling \$13,708,833, with various organizations to cover the cost of transporting emergency food aid from the United States to overseas locations. However, neither M/FM nor **BHR/FFP** were able to locate complete documentation for these transactions, and the incomplete files did not appear to meet the documentation standards established by 31 U.S.C. 1501(a). As a result, we question whether valid obligations were actually created.

**BHR/FFP** officials stated that, although they had no Bureau-specific procedures detailing the requirements, the usual documentation for this type of transaction consists of two documents—a Transfer Authorization and a Procurement Authorization (PA) or a Procurement Authorization Purchase Requisition (**PAPR**). The Transfer Authorization is designed to commit (reserve) funds within **USAID's** budget allocation system. It also provides essential details about the planned transaction, specifying the fiscal year in which the commodities will be shipped, the organization which will **receive** and transport the commodities, and the targeted country or region. Transfer Authorizations should state the exact amount of commodities needed and include an estimate of the price. Transfer Authorizations are not considered to be obligating documents because they are tentative agreements, subject to the availability of commodities and funds. When commodities and money become available, **BHR/FFP** prepares a PA or a PAPR to finalize the details of the transaction. The PA or PAPR incorporates the Transfer Authorization to provide the specific details of the transaction. When combined, the two documents are considered the final **agreement** between **USAID** and the recipient and, thereby, constitute an obligation.

During the audit, we found five obligations in which the Transfer Authorization was missing and the obligation was supported only by a PA or **PAPR**. Neither M/FM nor **BHR/FFP staff** were able to locate Transfer Authorizations for any of these transactions. **BHR/FFP** staff said **that** it was possible that Transfer Authorizations had not been prepared because compliance with obligation standards had not been a priority in past years. **BHR/FFP** and General Counsel staff agreed that these obligations did not appear to satisfy the standards established by 31 U.S.C. 1501(a) and their validity was questionable. A **BHR/FFP** manager advised us that the Bureau was currently focusing much more attention on the need to reorder its processes for approving, executing, and recording obligations to prevent the recurrence of these problems in the future.

## **M/FM Recorded Two Obligations Before They Were Finalized**

Unlike the situation described above, in which Transfer Authorizations could not be found and probably were not prepared, we found two examples of a slightly different nature. In these cases, although all appropriate documents were eventually prepared, incomplete documents were submitted to M/FM for recording before the agreements or contracts had been finalized. We are not questioning the current validity of these transactions, but point them out as internal control problems.

- In April 1995, **BHR/FFP** forwarded a PAPR, in the amount of **\$1,912,400**, to M/FM for recording. M/FM staff recorded the amount shown on the PAPR as an obligation. However, at that time, the Transfer Authorization had not yet been executed. As stated above, it is the combination of a Transfer Authorization and a PA or PAPR which constitutes the obligation.
- In September 1996, the Office of Procurement's transportation division (**M/OP/TRANS**) forwarded a contract in the amount of \$25,000 to M/FM for recording, even though the contract had not been fully executed. M/FM acted as requested and recorded the contract as a valid obligation in fiscal year 1996. It is our opinion, however, that because the contract had not been fully executed until the following **fiscal** year, a valid obligation had not been created and the amount was incorrectly recorded in the Agency's accounting system.

**M/OP/TRANS** officials said they requested that the obligation be recorded in this manner because they had not been able to finalize the details of the shipment before the end of the fiscal year, and they wanted to ensure that funds would be available to ship the commodities immediately after procurement to **prevent** spoilage.

**BHR/FFP** officials stated that there are several reasons why the situations described above might have occurred. They said **BHR/FFP** was understaffed and personnel were over-worked and, when faced with emergency situations, may have taken shortcuts to rush commodity procurements and shipments so that food could be distributed as quickly as possible. M/FM staff said that they recorded the incomplete transactions as obligations because it was a standard operating procedure to record obligations based solely on a PA or PAPR.

In fiscal year 1997, **USAID/Washington** activated new accounting and management systems which resulted in significant changes in the way most obligations are recorded in the Agency's accounting records. Rather than sending obligations to M/FM to be recorded, **BHR/FFP** and other Washington offices now record the obligations they execute directly into Agency accounting systems. Although **M/FM** accounting staff had neither the time nor the qualifications to do much more than ensure that documents had appropriate signatures, they did identify and **return** some questionable obligations to originating offices. Because this review has been eliminated, it is now more important

than ever that obligating **offices**, including **BHR/FFP**, be aware of and comply with requirements for creating valid obligations. Because **BHR/FFP's** obligations are atypical, we believe that it would be useful for **BHR/FFP** to document its obligation policies and procedures to facilitate internal management and accountability and external review.

Because most of the questionable obligations were recorded by M/FM based on documentation submitted by **BHR/FFP**, we are addressing our recommendations for corrective action to M/FM, which recorded the questionable obligations, and **BHR/FFP**, which executed most of them.

**Recommendation No. 1:** We recommend that the Chief Financial Officer:

- 1.1 obtain written opinions from the Office of General Counsel as to the validity of the obligations shown in Appendix III of this report, and
- 1.2 take appropriate corrective actions, if **any** is required, based on those opinions.

**Recommendation No. 2:** We recommend that **BHR/FFP** prepare office-specific guidance to ensure that **only** valid obligations are executed and recorded.

**USAID/Washington's Pipeline  
Included Obligations with Excess  
and Unneeded Balances**

Our audit showed that although **USAID/Washington** offices **did review their** unliquidated obligations in fiscal year 1996, they were not successful in **identifying** and **deobligating** excess or unneeded balances before September **30, 1996**. We estimate that 8 percent, or about \$358 million, of **USAID/Washington's** \$4.4 billion pipeline was in excess of current requirements or no longer needed on September 30, 1996. This included:

- approximately \$163 million which was considered excess because it was not expected to be needed within a reasonable future period, as defined by **USAID's** forward funding guidelines, and
- nearly \$114 million which remained unspent after all required goods and services were delivered and activities had been completed.

The remaining amount was considered excessive for a variety of reasons. It included obligation balances which became excess when the scope of the activity was reduced, but the obligation budget was not reduced, or when **the implementation** of the activity was

slower than expected and disbursements were slower than expected, but there **was** no reduction in the amount of the obligation.

There were several principal reasons why excessive or unneeded balances had not been deobligated prior to September 30, 1996:

- **USAID/Washington** financial and activity managers did not always consider the Agency's forward funding guidelines as criteria for **determining** whether an obligation's unspent balance was excessive. As a result, they did not always target obligations which were forward funded beyond a reasonable future period to determine balances to be deobligated.
- Inadequate review and delays in routine financial management operations often impeded timely identification or deobligation of excess balances.
- Inadequate follow-up of review results and an Agency practice of not deobligating any funds from expired or inactive obligations until **all** steps in the formal obligation close-out process are completed sometimes impeded timely deobligation of balances known to be excessive.

Deficiencies in the Agency's new accounting system caused additional problems in periods after our audit. For example, neither financial staff nor activity managers have been able to get useful reports on the current status of obligations recorded in the new system and the system has been unable to process the deobligation of older funds.

During the audit, we identified 104 obligations with unliquidated balances **totalling \$20,210,439** that we believed could be deobligated. Appendix IV lists those obligations, with unliquidated balances **totalling \$10,691,937**, that are currently in **M/OP's** close-out process. Appendix V lists those obligations, with unliquidated balances totalling **\$9,518,502**, that have not yet been forwarded to **M/OP** for close-out, are subject to different deobligation procedures, or have not been **deobligated** because of deficiencies in the agency's new accounting system.

Because not deobligating unnecessary balances meant that significant funding was unavailable for higher priority programs and activities, we are particularly concerned that **USAID/Washington** has not conducted any systematic reviews of **unliquidated** obligations since fiscal year 1996. M/FM did not initiate reviews in fiscal year 1997 because decisions had not been reached as to the roles and responsibilities of **USAID/Washington** offices to conduct reviews in the period after activation of new accounting and management systems in Washington. We believe that estimates of excess funding would only be higher now, after a period of no reviews, than **was** the case on September 30, 1996, after a period of routine reviews.



## Adherence to Forward Funding Guidelines

Since at least 1978, **USAID** has issued guidelines for estimating the amount of funding which should be obligated. These “forward funding” guidelines, which typically are issued as part of annual instructions for preparing budget submissions, have been worded somewhat differently over the years. The version included in instructions for fiscal year 1996’s budget submissions stated that obligations should be sufficient to fund anticipated expenses for no more than 12 months beyond the end of the fiscal year in which the obligation takes place. Obligations for participant training, construction activities, **non-project** assistance, and new projects were subject to somewhat different standards. For example, obligations for new projects or activities should provide funding for at least 18 months, but not more than 24 months.

For the purposes of this audit, we applied the guidelines as follows when determining whether an obligation balance should be considered excessive:

***Obligations for new fiscal year 1996 activities*** - In general, we considered obligation balances to be reasonable as of September 30, 1996, if they provided funds for anticipated expenses for a period of 24 months following the date of obligation or through September 30, 1997, whichever was later.

***Obligations for continuing activities*** - In general, we considered obligation balances to be reasonable as of September -30, 1996, if they provided funds for anticipated expenses (1) for the **12-month period** ending September 30, 1997; (2) through the expiration date of the obligating document; or (3) through the project assistance completion date, whichever was earlier. In making these assessments, we considered whether balances of **other funding** increments affected the continuing need for part or all of **the unliquidated** balance being audited.

Using this interpretation, we estimated that because of lack of compliance with the Agency’s forward funding policy, about 4 percent, or almost \$163 million, of **USAID/Washington’s** pipeline was in excess of current requirements on September 30, 1996. However, due to the passage of time between that date and our audit fieldwork in mid- and late 1997, the balances of many obligations had been reduced to amounts that were no longer considered excessive. Additionally, it should be noted that, although our estimates and audit work was not designed and **cannot be** used to identify any **bureau-to-bureau** differences, some officials believe that differences in excess pipelines exist between bureaus.

**USAID** officers offered several reasons for not complying with the guidelines. Some believed the guidelines are impractical due to the nature of **Agency** programs and projects. Some said that in order to meet Congressional earmarks; bureaus had to obligate more than needed thereby causing a de facto violation of the guidelines. Others thought compliance was optional and some thought that **it** applied only to budget planning

**processes.** A few contract and project officers said that they ignored the guidance because they wanted to avoid the additional paperwork associated with incremental funding. Lastly, many did not know about the guidelines at all.

In our opinion, the guidelines were inadequately disseminated to ensure familiarity and compliance. We were told that the guidelines, because they were articulated in annual budget preparation guidance, were not necessarily shared with the project/activity managers or procurement officers who typically develop the detailed budgets for obligations. In addition, because the guidelines were not included in the criteria used for periodic obligation reviews, reviewers did not use them to identify funds for potential deobligation.

Considering the views expressed to us by officials expected to implement the forward funding guidance, the lack of an internal control to ensure the enforcement of the policy, and the high cost to other objectives of the Agency if funds were tied up in unnecessary large pipelines, it is our opinion that the Agency should clarify how its forward funding guidelines are to be implemented and assign responsibility for their enforcement. However, because this issue is addressed in our worldwide audit report (Report No. 9-000-98-003-F), we are not making any recommendations here.

#### **USAID/Washington Reviews did not Result in Timely Deobligations**

According to the GAO, because the precise amount of the government's liability is frequently not known at the time an obligation is incurred,- the obligation should be recorded on the basis of the agency's **best estimate**. **Where an estimate is used, the** basis for the estimate must be shown on the obligating document. As more precise data on the liability becomes available, the obligation must be periodically adjusted. In addition, GAO's Standards for Internal Control in the Federal Government require the prompt, timely, and accurate recording of transactions, including deobligations. Transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions. Records which do not reflect the true status of the organization will fail to assist management in making timely and effective decisions.

During the period covered by our audit, M/FM was responsible for recording most obligations, initiating annual reviews of **unliquidated** obligations to identify invalid and excess balances, and recording deobligations.<sup>4</sup> Based on our audit, we estimate that about 8 percent, or nearly \$358 million, of **USAID/Washington's** fiscal year 1996 pipeline

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<sup>4</sup>It should be noted, however, that since **fiscal year 1996**, **significant** management changes have occurred which have changed the **responsibilities** for **recording** and **analyzing/reviewing** obligations and deobligations. The responsibility for **recording USAID/Washington** deobligations has shifted **from M/FM** to the offices that executed the obligations. For a more complete discussion on this issue, see the worldwide audit report (Report No. 9-000-98-003-F).

was in excess of current requirements or no longer needed and could have been deobligated before September 30, 1996. The estimated percentage of excess funding was higher for **USAID/Washington's** pipeline than for the pipeline of **USAID's** overseas offices. Although **USAID/Washington's** unliquidated obligation balances were slightly over 45 percent of the Agency's pipeline, its obligations comprised more than 72 percent of **the** amount considered to be excessive. Furthermore, many **USAID/Washington** balances which were identified as excessive during fiscal year 1996 obligation reviews had not been deobligated by the time of our audit in fiscal year 1998.

Funds considered to be excessive had not been deobligated in a timely manner for several reasons besides the forward funding issues as discussed above. These include the following:

- Bureaus had not reassigned responsibility to specific individuals for the oversight of some activities, especially those with **older** or inactive obligations.
- Activity managers did not always reassess the continuing need for the entire unspent balance of obligations for activities which had been reduced in scope or delayed.
- Steps were not taken during periodic obligation reviews which would have alerted responsible financial, procurement, or program staff that an obligation had expired or an activity had been completed or was expected to do so in the near future.
- When obligations with excessive balances were identified, follow-up action by financial, program, and procurement staff was unmethodical and disconnected.
- It has not been an Agency practice to **&obligate** any funds from expired or inactive obligations until all steps in the formal obligation close-out process are completed. These steps include receiving and paying final invoices, receiving and processing **advices of charge<sup>1</sup>** from other **USAID** offices, obtaining all unspent advances and refunds due from contractors **or grantees**, and completing overhead or incurred costs audits. These **steps can take years** to complete and, in the meantime, the entire unspent balance is retained, even if the remaining balance is far more than is safely needed to meet potential expenditures.

Appendix IV lists those unliquidated obligations reviewed during our audit which were currently in **M/OP's** formal close-out process. These balances total about \$10.7 million. When we followed-up with **M/OP** on some **of these** obligations, we learned that **M/OP** had requested and was waiting for documentation from M/FM. M/PM, in turn, told us

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<sup>1</sup>Advice of Charge - A **USAID** accounting document used to **transfer** expenditures or **credits** between accounting offices.

that it was awaiting documentation from other **USAID/Washington** offices or the vendor. It appeared to us, however, that follow-up action on these inter-office requests was untimely and unsystematic, thereby causing unnecessary delays in the close-out process. Therefore, we feel that in order to expedite the deobligation process, **M/OP** will need to follow-up on these obligations.

Appendix V lists those unliquidated obligations reviewed during our audit which we believe could be deobligated in whole or in part, and which are not currently in **M/OP's** formal close-out process. These balances total about \$9.5 million. The lists in both appendices include (1) obligations with balances which were excessive at September 30, 1996, and (2) obligations with balances which became excessive after that date but before the date of audit.

**Recommendation No. 3: We recommend that:**

- 3.1 the Office of Procurement, Bureau for Management, review the balances described in Appendix IV of this report to *identify* and obtain any additional information needed from other **USAID** offices and/or vendors to expedite the close-out process and to determine whether any portion of these balances can be deobligated before all close-out steps have been completed, and**
- 3.2 the Office of Financial Management, Bureau for Management, lead **USAID/Washington** efforts to review and *deobligate* the balances described in Appendix V of this report.**

**No Reviews in Fiscal Year 1997**

Many **USAID/Washington** activity managers told us that it has been their practice to wait until M/FM provides reports/worksheets on the status of unliquidated obligations before starting their annual reviews of unliquidated obligations. Because M/FM did not issue worksheets or instructions in fiscal year 1997, they did not conduct any reviews. M/FM officials acknowledged that they had instigated and facilitated pipeline reviews in the past. However, they believe that activity managers have always had the primary responsibility for reviewing obligations and assessing the need for unspent funds and should be doing so throughout each year.

In fiscal year 1996 and prior years, activity managers returned the review worksheets, with some indication of balances to be deobligated, to M/FM for action. However, M/FM could not record deobligations based on these worksheet conclusions. M/FM required a formal memorandum from either **M/OP** or Bureau **officials**, depending on which office obligated the funds, indicating that close-out processes had been completed and deobligation of unspent balances was appropriate. However, we found instances in which

M/OP and Bureau officials were not made aware of the activity managers' notations and close-out was delayed.

Officials in all USAID/Washington bureaus, except the Bureau for Europe and the Independent States (ENI) and BHR, stated that they did not have procedures for (1) deobligating funds in the absence of a review process initiated and facilitated by M/FM or (2) closing out obligations for agreements awarded directly by the Bureaus (versus those awarded by M/OP, which executes most Agency agreements).

ENI has draft operating procedures for deobligating funds from completed awards as well as those that have been scaled back. These draft procedures establish responsibility and procedures for the deobligation of residual funds from contracts and grants which have expired or which, prior to expiration, are in excess of awardee requirements. We consider these draft procedures to be an excellent step in assuring that obligations are reviewed systematically by activity managers in order to identify excessive obligation balances and deobligate unneeded funds.

Although cognizant M/FM officials were aware that most USAID/Washington activity managers did not conduct reviews in fiscal year 1997 and are unlikely to resume such reviews until revised guidance is issued, they have not addressed the problem. We recognize that developing new guidance will not be easy and solutions might not be popular, especially to offices given new responsibilities. However, we do believe that M/FM should take steps in the meantime to remind USAID/Washington offices of the importance of routine pipeline reviews and to provide some guidance as to how such reviews might be conducted with information and reports that can be obtained from the new accounting system.

**Recommendation No. 4: In the absence of final decisions on the roles and responsibilities of USAID's offices for conducting periodic obligation reviews needed to comply with Federal certification requirements, we recommend that the Chief Financial Officer issue a notice to USAID/Washington offices (a) instructing them to undertake a review of all unliquidated obligations to identify excess and unneeded balances as soon as possible, (b) advising them how reports or worksheets that would facilitate such reviews would be obtained, and (c) providing information on the responsibilities of M/FM, M/OP, and the programming offices for processing deobligations.**

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## Management Comments and Our Evaluation

In responding to our draft audit report, USAID stated that the report presented a balanced view of the status of unliquidated obligations in Washington as of September 30, 1996. USAID management agreed with the report's recommendations and findings.

To ascertain the validity of the obligations questioned during the audit, the Chief Financial Officer requested a ~~written~~ opinion from the **Office** of General Counsel and agreed to implement any necessary corrective actions.

To ensure that **BHR/FFP** execute and record only valid agreements, **BHR/FFP** agreed to prepare office-specific guidance and conduct staff training to **ensure** understanding and compliance.

To determine whether any portion of the balances of specific obligations in the close-out process could be deobligated prior to completion of all close-out steps, **M/OP** undertook a special analysis of the 35 obligations listed in Appendix IV and determined that **\$7,512,392** could be deobligated from the balances of 4 obligations. Recommendation No. 3.1 was based, in part, on our observation that close-out was frequently delayed by untimely requests from **M/OP** for information or by untimely responses from other **USAID** offices to such requests. **M/OP's** analysis **re-emphasized** these findings because it showed that **M/OP** could not complete the close-out process on 20 obligations because it was awaiting on information **from** other **USAID** offices. In our opinion, **M/OP's** response only partially addressed Recommendation No. 3.1. To be fully responsive, **M/OP** should provide M/FM and/or other responsible program offices with a list of items it is waiting for and request that these offices provide the information needed by **M/OP** or indicate when it will be provided. If management agrees to this step, we will consider that a management decision has been made.

**M/OP's** response raised another concern, because it appears that **M/OP** is considering a permanent change to its procedures. This change seems designed to ensure that obligations with residual balances exceeding \$500,000 will **be** reviewed early in the close-out process to determine whether any portion of the balance can be safely deobligated prior to the completion of the entire process. **M/OP's** threshold reflects its **concerns** about potentially deobligating too much and the added administrative cost of deobligating balances that fall below \$500,000. Representatives of at least one bureau expressed concerns that this **threshold** is too high because it keeps some relatively large balances tied up in the close-out process for up to two years. We believe that **M/OP** should reconsider its proposed threshold, keeping in mind that this new procedure should not result in a permanent increase in its workload. The Agency has agreed to undertake significant changes in its management of unliquidated obligations, leading to better pipeline management. As a result, fewer obligations should expire with large residual balances needing early review by a close-out team.

M/FM also began to review the balances of obligations listed in Appendix V to determine whether any amounts should be deobligated.

Lastly, the Chief Financial Officer agreed to issue interim guidance for obligation reviews to **USAID/Washington** bureaus and offices. \

## SCOPE AND METHODOLOGY

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### Scope

This audit is part of the Office of Inspector General's (OIG) worldwide review of the Agency's obligations for project and non-project assistance. The worldwide audit is limited to obligations for project and non-project assistance which had unliquidated balances on September 30, 1996. It does not cover obligations recorded in fiscal year 1996 into the Agency's new accounting system, obligations funded with U.S.-owned local currency, obligations for disaster relief, or obligations maintained by **USAID** for the Trade and Development Agency.

The **OIG's** Office of Performance Audits audited **USAID/Washington's** review and certification of unliquidated obligations for project and non-project assistance, as of September 30, 1996. The audit was conducted at **USAID/Washington**, from May 14, 1997 through March 2, 1998, and was performed in accordance with generally accepted government auditing standards.

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### Methodology

We answered this audit objective for **USAID/Washington's** unliquidated obligations by using data extracted by M/FM from the Agency's Financial Accounting Control System (FACS) as the basis for our audit universe for project and non-project assistance which had unliquidated balances on September 30, 1996. The unliquidated balances on this list totalled \$4,404,110,561.

Using stratified sampling methodology, we randomly selected 358 obligations with unliquidated obligation balances at September 30, 1996 totalling \$732,559,979. We tested each obligation to ensure that (1) it was valid, as defined by 31 U.S.C. 1501(a) and (2) its balance conformed to GAO and **USAID** guidance. While conducting our fieldwork at **USAID/Washington**, we also performed limited tests of compliance with Agency procedures related to Section 1311 reviews and pipeline reviews of obligations for project and non-project assistance. The audit was not designed to determine whether all valid obligations were recorded, the unliquidated balances reported by **USAID** had been computed correctly (e.g., disbursements were correct), or appropriation account balances were accurate.

To assess the appropriateness of unliquidated balances, we reviewed obligation documentation to determine whether, on September 30, 1996, the balance was needed, in full or in part, to cover expenses anticipated during reasonable future periods. In making these decisions, we considered the Agency guidance for forward funding, activity-specific budgets and spending plans, actual disbursements, progress reports, and accruals. When amounts were questioned, we interviewed relevant activity managers and contracting or grant officers. When an obligation's validity or balance appeared questionable, we interviewed relevant activity managers, contracting or grant officers, and attorneys in the Office of the General Counsel.

In addition to capturing information and making calculations as of September 30, 1996 for Agency-wide projections, we determined whether the unliquidated balances of any obligations reviewed during the audit still had excessive balances at the time of our field work. If so, we recommended that the excess funds be deobligated, as appropriate.

Projected throughout this report is an estimate of the amount of **USAID/Washington's** total balance of unliquidated obligations (as of September 30, 1996) which would have been found to be excessive if the entire universe of obligations had been reviewed. This estimate falls within a range of 73 percentage points to 127 percentage points, at a 95 percent confidence level. In other words, if **all unliquidated** obligations had been reviewed, there is a 95 percent probability that the results obtained would not differ from the sample estimates, in the most extreme case, by more than  $\pm 27$  percentage points.

The results of our field work at **USAID/Washington** were consolidated with the results of field work conducted at other missions and used to make Agency-wide projections.





U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

MAR 25 1998

**MEMORANDUM**

**TO:** AIG/A, Everette B. Orr  
**FROM:** AA/M, Terrence C. Brown *TJB*

**SUBJECT:** Audit of USAID/Washington's Review and certification of Unliquidated Obligations for Project and Non-Project Assistance as of 9/30/96, Draft Report No. 9-000-98-00X-F

Thank you for the opportunity to respond to the • ibjw drift report. It presents a balanced view of the status of unliquidated obligations in Washington as of September 30, 1996, and recognizes that circumstances have changed since the period of the audit due to the activation of new accounting and management systems. We are providing a separate response to your draft report on the worldwide audit. Our comments on the recommendations from this report are as follows:

**Recommendation 1: We recommend that the Chief Financial Officer:**

**1.1 obtain written opinions from the Office of General Counsel as to the validity of the obligations shown in Appendix III of this report, and**

**1.2 take appropriate corrective actions, if any is required, based on those opinions.**

We agree with these recommendations and have made a management decision to implement them. M/FM sent a memorandum to GC on March 19, 1998, requesting GC's written opinion as to the validity of these obligations (attachment 1). Upon completion of the review, we will ask M/MPI to close recommendation 1.1. Recommendation 1.2 will be reviewed for closure upon completion of any identified corrective • action8.

**Recommendation 2: We recommend that BHR/FFP prepare office-specific guidance to • asus that only valid obligations are executed and recorded.**

We agree with this recommendation and will implement it. BHR/FFP will prepare the office-specific guidance and provide all office staff with appropriate training to ensure that the guidance is

understood and complied with. Closure will be considered upon review of the guidance.

**Recommendation 3.1:** We recommend that the Office of Procurement, Bureau for Management, review the balances described in Appendix IV of this report to identify and obtain any additional information needed from other USAID offices and/or vendors to expedite the close-out process and to determine whether any portion of these balances can be deobligated before all close-out steps have been completed.

We agree with this recommendation and have reached a management decision. A review has been conducted and an efficiency amount of \$7,512,392 has been identified. This represents funds that will be deobligated prior to completion of the close-out process. Attachment 2 provides a detailed analysis of the review. This recommendation will be considered for closure when the identified deobligations have actually occurred.

**Recommendation 2.2**

We recommend the Office of Financial Management, Bureau for Management, lead USAID/Washington efforts to review and deobligate the balances described in Appendix V of this report.

We agree with this recommendation. Efforts are already underway to review the balances in Appendix V and determine the amounts to be deobligated. Once the review is complete, a management decision will be requested based on the identified efficiency amount.

**Recommendation 4:** In the absence of final decisions on the roles and responsibilities of USAID's offices for conducting periodic obligation reviews needed to comply with Federal certification requirements, we recommend that the Chief Financial Officer issue a notice to USAID/Washington offices (a) instructing them to undertake a review of all unliquidated obligations to identify excess and unneeded balances as soon as possible, (b) advising them how reports or worksheets that would facilitate such reviews would be obtained, and (c) providing information on the responsibilities of M/PM, M/OP, and the programming offices for processing deobligations.

We agree with this recommendation and will initiate the recommended actions. Final action will be considered when the appropriate guidance has been issued to USAID/Washington bureaus and offices.

**Attachments:** as stated



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

MAR 19 1998

To: GC/LP, Jan Miller  
From: M/FM Tony Gully  
Subject: Continuing 'Validity of Obligations

M/FM has received the draft report of the Audit of USAID/Washington's Review and Certification of Unliquidated obligations for Project and Non-Project Assistance, Report No. 9-000-98-00x-F. Recommendation 1.1 of the report states "We recommend that the Chief Financial Officer obtain written opinions from the Office of the General Counsel as to the validity of the obligations shown in Appendix III of this report." The obligations shown in Appendix III are as follows:

	Obligation Amt	Disbursed Amt	Unliquidated Amt
80E5809Q10306900	\$50,000.5	\$ 199.81	\$ 99,715.19
099E606790	39,547	49,782.00	218.00
0996606770	2,008,434	39,546.25	.75
099E606837	8,955,532	1,709,342.48	299,091.52
099E404879	2,826,700	0.00	8,955,532.00
		2,755,372.98	71,327.02

I appreciate your review and determination on the continuing validity of the above obligations.

Copies of Appendix III of the audit and copies of the above documents are attached.

Attachment: a/s

cc: M/MPI/MIC, Connie Turner

ATTACHMENT 1

ATTACHMENT 2  
AMOUNTS RECOMMENDED FOR DEOBLIGATION  
FROM APPENDIX IV

No.	Obligation Number	Amount to Review	Efficiency Amount	Notes
1	DHR5451C00010900	268.88	0	1,3
2	CCS0007G00207800	6,111.54	0	1,3
3	PCE0013A00306700	8,155.77	0	1
4	DHR0249O00503900	157.00	0	1
5	EPE0005I00503300	10,000.00	0	5
6	DHR5446C00703300	34,340.50	0	2,3
7	DAN5052C00907100	19,360.79	0	1,4
8	CCN0002Q04315400	36,441.49	0	6
9	PDC0801A00109500	47,171.81	0	7
10	PCE5053G00304700	27,685.39	0	1
11	EUR0034S00401900	32,361.38	0	1
12	LAG4200I02305600	11,274.38	0	8
13	HRN6001A00301800	17,477.76	0	3
14	AEP5451I115205000	25,988.35	0	1
15	PCE5053G00202800	45,043.93	0	5
16	CCS0007G00201800	14,544.27	0	2,3
17	ANE0007G00904400	42,216.00	0	1
18	ANE0050C00005100	45,341.00	0	1
19	DHR5741Q00106200	101,417.76	0	9
20	DHR5738C00009700	752,042.60	750,042.60	4,10
21	DHR5555Q06108700	1,831.56	0	1
22	OTR0500A00010500	229,465.00	0	11
23	FAO0500A00302800	8,622.00	0	5
24	EUR0032A00103000	33,928.00	0	1,2,3

25	CCS0007A0020 1900	125,581.00	0	1,2,3
26	PDC0158A00105800	109,491 .68	0	5
27	DHR5448PAP003700	128,359.26	0	5
28	DPE3060Q02105500	43,821 .00	0	1
29	PDC0095Z00905300	356,799.49	0	5
30	DPE5972A00103100	78,481.00	0	I 1,2,3,4
3	CCN0005C00308200	2,143,075.00	1,643,075.00	2,3,4,5
32	CCN0005C00311500	2,000,000.00	1,500,000.00	5
33	CCN0011G00403200	4,119,274.60	3,619,274.60	4, 5
34	DPE5966A00104500	33,151 .60	0	1
35	DHR0071RAG900700	2,655.00	0	1,3
TOTAL		10,691,936.79	7,512,392.20	

**Notes**

1. The OCC Branch is waiting for confirmation of final payment from M/FM, before it can proceed further with the closeout and deobligation process.
2. The OCC Branch is waiting for responses from the project office on basic closeout information, such as whether the grantee fully complied with all applicable terms and conditions of the subject award, before it can proceed further with the closeout and deobligation process.  
The OCC Branch is waiting for responses from the contractor/grantee on basic closeout information such as whether the final voucher has been submitted and that the requirements of the "Reports" clause have been met, before it can proceed further with the closeout and deobligation process.
3. The OCC Branch is waiting for responses from the contractor/grantee on basic closeout information such as whether the final voucher has been submitted and that the requirements of the "Reports" clause have been met, before it can proceed further with the closeout and deobligation process.
4. Indirect cost rates for the entire period of performance have not yet been finalized. Therefore the exact amount of cost claimed is not yet known and final closeout and deobligation of the entire residual balances can not be calculated and accomplished.
5. The OCC branch has not yet reviewed the contract/grant files as they have only recently been received. Thus, it was not possible to quickly determine if deobligation of any residual funds is possible or prudent. However, for those awards with reported residual balances in excess of \$500,000 action will be taken to deobligate a portion of these funds.

- 6.
  7. This award was closed January 17, 1998. The deobligation is pending entry into NMS by the OCC Branch Chief. We anticipate this to occur in the near future.
  8. This award was closed and a memo authorizing deobligation of the residual balance was sent to M/FM/A on March 18, 1998 by the OCC Branch.
  9. This award was closed and a memo authorizing deobligation of the residual balance was sent to M/FM/A on February 17, 1998 by the OCC Branch.
  10. The contract file shows \$0 being obligated against this contract and thus we question the recommended deobligation amount.
  11. The OCC Branch is in the process of deobligating all but \$2,000, which is set aside to account for finalization of the indirect cost rates.
- This award was closed and a memo authorizing deobligation of \$172,068 was sent to M/FM/A on February 3, 1998 by the OCC Branch.

## OBLIGATIONS WHICH APPEAR TO BE INVALID

Obligation Number-And Brief Description	Amount Unliquidated @ 9/30/96	Reason for Questioning Validity
<u>PCE5839Q10306900</u> —Global Bureau Awarded Task Order for Analytical Studies of The Environmental Education and Communication Project	\$99,824	Questioned <u>bona fide</u> need for activity when obligated. The 9/95 obligation was for studies in two countries which by 7/97 had not been identified.
<u>52 1 E202812</u> —BHR/FFP Awarded Agreement for Inland Transportation, Shipping and Handling Costs	\$3,142	Only a PAPR documents this obligation-No Transfer Authorization could be located
<u>099E606790</u> —BHR/FFP Awarded Agreement for Overseas Freight	\$39,547	Only a PA documents this obligation-No Transfer Authorization could be located
<u>099E606770</u> —BHR/FFP Awarded Agreement Overseas Freight	\$1,883,912	Only a PA documents this obligation-No Transfer Authorization could be located
<u>099E606837</u> —BHR/FFP Awarded Agreement for Inland Transportation, Shipping and Handling Costs	\$8,955,532	Only a PAPR documents this obligation-No Transfer Authorization could be located
<u>099E404879</u> —BHR/FFP Awarded Agreement for Overseas Freight	\$2,826,700	Only a PA documents this obligation-No Transfer Authorization could be located
TOTAL	\$13,808,657	

**OBLIGATIONS TO BE REVIEWED FOR DEOBLIGATION  
(OBLIGATIONS IN M/OP CLOSE-OUT PROCESS)**

<b>No.</b>	<b>Obligation Number</b>	<b>Amount to Deobligate</b>
1	DHR545 1C000 10900	268.88
2	CCS0007G00207800	6,111.54
3	PCE0013A00306700	8,155.77
4	DHR0249000503900	157.00
5	EPE0005I00503300	10,000.00
6	DHR5446C00703300	34,340.50
7	DAN5052C00907100	19,360.79
8	CCN0002Q043 15400	36,441.49
9	PDC080 1A00 109500	47,171.81
10	PCE5053G00304700	27,685.39
11	EUR0034S0040 1900	32,361.38
12	LAG4200102305600	11,274.38
13	HRN6001A00301800	17,477.76
14	AEP545 1115205000	25,988.35
15	PCE5053G00202800	45,043.93
16	CCS0007G0020 1800	14,544.27
17	ANE0007G00904400	42,216.00
18	ANE0050C00005 100	45,341.00
19	DHR5741Q00106200	101,417.76
20	DHR5738C00009700	752,042.60
21	DHR5555Q06108700	1,831.56
22	OTR0500A000 10500	229,465.00
23	FAO0500A00302800	8,622.00



OBLIGATIONS TO BE REVIEWED FOR DEOBLIGATION  
(OBLIGATIONS IN **M/OP** CLOSE-OUT PROCESS)

24	EUR0032A00103000	33,928.00
25	CCS0007A00201900	125,581.00
26	PDC0158A00105800	109,491.68
27	DHR5448PAP003700	128,359.26
28	DPE3060Q02105500	43,821.00
29	PDC0095Z00905300	356,799.49
30	DPE5972A00103100	78,481.00
31	CCN0005C00308200	2,143,075.00
32	CCN0005C00311500	2,000,000.00
33	CCN0011G00403200	4,119,274.60
34	DPE5966A00104500	33,151.60
35	DHR0071RAG900700	2,655.00
	<b>TOTAL</b>	<b>\$10,691,936.79</b>

**OBLIGATIONS TO BE REVIEWED FOR DEOBLIGATION  
(OBLIGATIONS WERE NOT IN M/OP CLOSE-OUT PROCESS)**

<b>No.</b>	<b>Obligation Number</b>	<b>Amount to Deobligate</b>
1	MD1366027	\$8,035.19
2	TA5692333	640.19
3	OTR0500A000 10600	9,291.73
4	EPE0014I00507300	1 0,000.00
5	MD6032801	1,163.43
6	FAO0230G00205 100	829.00
7	TA5692043	603.57
8	MD503121 1	2,543.20
9	TA6692 167	85 1.70
10	AEP545 1109205000	9,403.91
11	TA4692366	1,195.00
12	HNE0185O00505600	2,569.33
13	099E406 144	5,000.00
14	DHR5741Q04106200	6,759.73
15	EPE0005I00503400	1 0,000.00
16	TA6622660	968.45
17	PDC0085I39906000	9,398.62
18	9363070G00456100	10,000.00
19	CCN0009O0030 1800	152.32
20	EPE0005I00503500	1 0,000.00
21	TA5692042	218.59
22	EPE00 14100507800	10,000.00

**OBLIGATIONS TO BE REVIEWED FOR DEOBLIGATION**  
**(OBLIGATIONS WERE NOT IN M/OP CLOSE-OUT PROCESS)**

<b>No.</b>	<b>Obligation Number</b>	<b>Amount to Deobligate</b>
23	TA4692369	1,285.00
24	DAN5058G00606400	923.23
25	TA6626551	5,730.00
26	MD5613260	3,900.00
27	TA6622684	0.55
28	LAG4084C00204400	48; 159.44
29	DPE3035Q25005400	40,349.87
30	MD6034002	3,918.88
31	AEP0232C0030 1000	33,374.49
32	HRN5600G00200500	13,379.86
33	9361406G00583800	1,180.80
34	ANE0249XCA101600	30,518.90
35	099E108007	19,050.31
36	1100005G00545600	11,231.53
37	PDC0000Z00803400	4,547.77
38	MD4029805	13,887.71
39	5980591C00302600	34,897.30
40	MD5031 100	22,012.54
41	DPE5544G00803900	13,844.00
42	PDC0095Z23905300	67,551.21
43	CCP3023Q11201300	25,521.16
44	MD3662001	8,548.48

**OBLIGATIONS TO BE REVIEWED FOR DEOBLIGATION**  
(OBLIGATIONS WERE NOT IN **M/OP** CLOSE-OUT PROCESS)

<b>No.</b>	<b>Obligation Number</b>	<b>Amount to Deobligate</b>
45	52 10802600300200	40,184.65
46	HRN6004G00400900	27,226.64
47	LAG0365A00600400	1,833.57
48	DPE5544G00700700	94,218.00
49	615E404875	15,291.00
50	PDC1406I11003200	18,755.33
51	DHR5453B15907800	1,827.33
52	BHR0802G00504100	54,000.00
53	MD5004918	128,500.00
54	1100012600413200	172,156.00
55	6234687C00403900	188,580.08
56	PDC0232Z00006800	126,867.81
57	EPE0014I01507000	201,459.78
58	CCP3024Q19301200	41,639.31
59	1800023G00391400	113,092.00
60	615T 610	2,000,000.00
61	MD6004922	49,123.12
62	CCN0005C00312300	1,400,000.00
63	DPE5986A00100900	166,816.52
64	BAF0421PHC223300	1,593,109.82
65	MD6004921	236.28
66	DHR5556RAG100200	156,948.00

**OBLIGATIONS TO BE REVIEWED FOR DEOBLIGATION**  
**(OBLIGATIONS WERE NOT IN M/OP CLOSE-OUT PROCESS)**

<b>No.</b>	<b>Obligation Number</b>	<b>Amount to Deobligate</b>
67	CCN0005C00310700	993,410.33
68	EUR0024G00405500	1,269,790.00
69	EUR0030C00205300	150,000.00
	<b>TOTAL</b>	<b>\$9,518,502.56</b>